Report

of the

Examination of

General Casualty of Wisconsin

Sun Prairie, Wisconsin

As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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January 23, 2002

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Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

GENERAL CASUALTY OF WISCONSIN
Sun Prairie, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans

Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The General Casualty Company of Wisconsin (hereinafter also “General Casualty” or the “company”) was incorporated under its present name pursuant to the laws of the state of Wisconsin on May 12, 1925, and commenced business on May 29, 1925.

Of the 1,000 shares of common capital stock originally issued to 15 subscribers, 991 shares were transferred to the Insurance Investment Company, which operated the company under a management contract, and the nine remaining shares were held by directors as qualifying shares.

On February 18, 1956, the directors surrendered their qualifying shares and Insurance Investment Company sold its entire interest in General Casualty to the Fire Association of Philadelphia. On January 1, 1958, the Fire Association of Philadelphia changed its name to Reliance Insurance Company, the name by which it continues to be known.

On April 30, 1990, Reliance Insurance Company sold all of the issued and outstanding shares of General Casualty to Winterthur U.S. Holdings, Inc., a subsidiary of Winterthur Swiss Insurance Company. In September 1990, Winterthur U.S. Holdings, Inc. contributed 15% of the shares of General Casualty to Republic Insurance Company, a Texas-domiciled affiliate.

On December 31, 1996, Winterthur Reinsurance Corporation of America (hereinafter also “Winterthur Re.”), another member of the Winterthur Swiss Group, acquired 10% of the shares of General Casualty from Republic Insurance Company. Credit Suisse Group merged with the Winterthur Swiss Group on December 15, 1997. In this way, General Casualty became an indirect wholly owned subsidiary of the Credit Suisse Group, its current ultimate parent.

Effective December 23, 1998, Winterthur Re. was sold outside the Winterthur Group, and its shares (10%) of General Casualty were transferred back to Winterthur U.S. Holdings, Inc. August 31, 1999, Republic’s 5% was repurchased by General Casualty.

Since 1963, the company has expanded the number of its subsidiaries, and effectively heads its own holding company subsystem within the Winterthur holding company system, consisting of five subsidiary insurers and two financial service subsidiaries.

As of December 31, 2000 Winterthur conducted its operations in the United States through a network of five distinct groups of companies that operate independently of one another. The function of the holding company subsystem led by General Casualty is to act as Winterthur's distributor of commercial and personal lines products in the Midwestern region of the United States, and to provide insurance on U. S. risks to multinational accounts. Each company in the General Casualty Group has a marketing role, which allows the group the flexibility necessary to diversify the range of products and programs it is able to offer. General Casualty's role is to write standard risks at standard rates. Additional information concerning the history and present composition of the holding company system headed by Winterthur Swiss Insurance Company, and the holding company subsystem led by General Casualty, is contained in the section of this report titled "Affiliated Companies."

General Casualty is the primary employer for its holding company subsystem, with approximately 1,700 employees nationwide at the time of this examination. General Casualty Company of Illinois, Hoosier Insurance Company, Regent Insurance Company, Winterthur International America Insurance Company, Winterthur International America Underwriters Insurance Company, Winterthur International Services of America Inc., and General Financial Corporation have no employees of their own and rely principally on General Casualty for the staff essential to run day-to-day operations. Winterthur Investment Management Corporation manages the companies' investment operations, subject to the supervision of each of the companies' respective boards of directors. All operations of the holding company subsystem led by General Casualty are conducted with staff provided by these two companies in accordance with business practices and internal controls established by Winterthur U.S. Holdings, Inc.

Virtually all expenses for the holding company subsystem led by General Casualty are initially paid by General Casualty. Expenses other than federal taxes and investment management are allocated in accordance with the affiliated pooling reinsurance agreement according to each insurer's participation in premiums and losses. Federal tax allocations are established in accordance with a written consolidated federal income tax agreement. Investment management fees and expenses are paid to Winterthur Investment Management Corporation in accordance with a contract effective December 30, 1998. Intercompany balances with affiliates are created in the ordinary course of business with settlements generally made on a monthly basis. Written agreements with affiliates are further described in the section of this report titled "Affiliated Companies."

The company's operations are coordinated from its home office in Sun Prairie, Wisconsin. Support services are provided through a network of full-service regional offices and claim service centers in the following cities:

Appleton, Wisconsin	Kansas City, Missouri
Brookfield, Wisconsin	Lincoln, Nebraska
Des Moines, Iowa	Minneapolis, Minnesota
Eau Claire, Wisconsin	Springfield, Illinois
Freeport, Illinois	Sun Prairie, Wisconsin
Indianapolis, Indiana	

All of the company's business is acquired through an independent agency force consisting of 1,196 agencies at the time of this examination. The company uses standard contract forms and commission schedules for most of its sales representatives. In addition, agents are eligible to participate in the profits earned by the company from their production in the form of contingent commissions. Contingent commissions vary from 7.54% to 35% of the profit derived from the agent's production, depending on production volume, productivity, and relationship.

In 2000, the company wrote business in 45 of the 48 jurisdictions in which it was licensed. The distribution of direct premiums written in 2000 by state was as follows:

Wisconsin	$130,334,844	48.8%
Iowa	31,969,443	12.0
Minnesota	26,849,515	10.0
Nebraska	16,725,100	6.3
Ohio	12,786,252	4.8
Illinois	11,176,183	4.2
Missouri	9,916,287	3.7
All other	27,445,155	10.3
Total	$267,202,779	100.0%

As of the examination date, the company was licensed in Puerto Rico, and all the states of the United States except New Hampshire, New Jersey, and Vermont.

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

(a) Fire, Inland Marine, and Other Property
(b) Ocean Marine
(c) Disability
(d) Liability and Incidental Medical Expense
(e) Automobile and Aircraft
(f) Fidelity
(g) Surety
(k) Worker's Compensation
(n) Miscellaneous Insurance

The following table is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$1,529,606	$13,898,300	$6,316,125	$9,111,781
Allied lines	1,258,322	8,027,983	3,716,303	5,570,002
Homeowner's multiple peril	22,988,093	32,315,642	22,943,072	32,360,663
Commercial multiple peril	52,243,213	98,628,597	63,057,273	87,814,537
Ocean marine		108,178	43,271	64,907
Inland marine	4,796,121	2,550,995	3,502,033	3,845,083
Earthquake	788	408,914	167,171	242,531
Worker's compensation	29,359,227	146,000,363	70,976,399	104,383,191
Other liability - occurrence	9,882,489	14,983,747	10,744,142	14,122,094
Other liability - claims made		8,319,140	3,326,912	4,992,228
Products liability - occurrence	574,553	7,281,179	3,141,823	4,713,909
Products liability - claims made		8,205,366	3,284,006	4,921,360
Private passenger auto liability	49,180,750	58,179,328	43,288,023	64,072,055
Commercial auto liability	38,245,176	39,181,085	31,485,302	45,940,959
Auto physical damage	57,047,278	63,979,155	48,857,242	72,169,191
Fidelity	72,925	39,597	45,009	67,513
Burglary and theft	24,237	13,997	15,293	22,941
Total All Lines	$267,202,778	$502,121,566	$314,909,399	$454,414,945

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. The company's bylaws require three directors to be elected annually, each serving a three-year term. However, the examination noted annual elections for each board member. For additional comment, see the section of the report titled "Summary of Current Examination Results". Members of the company's board may also be members of other boards of directors in the Winterthur holding company system. As a matter of customary practice, the membership of the boards of the company and its subsidiary, Regent Insurance Company, are identical. The directors receive no compensation specific to their service on the board because all are employees of the holding company system.

At the examination date, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expiry
John R. Pollock Maple Bluff, Wisconsin	President and Chief Executive Officer General Casualty Company of Wisconsin	2002
Peter G. McPartland Verona, Wisconsin	Executive Vice President, Operations General Casualty Company of Wisconsin	2002
Raymond L. Gilmore Madison, Wisconsin	Senior Vice President, Information Services General Casualty Company of Wisconsin	2002
Thomas A. Parker Fitchburg, Wisconsin	Senior Vice President, Treasurer, and Chief Financial Officer General Casualty Company of Wisconsin	2002
Anne B. Smith Sun Prairie, Wisconsin	Senior Vice President, Corporate Secretary, and General Counsel General Casualty Company of Wisconsin	2002
Don D. Suominen Madison, Wisconsin	Senior Vice President, Claims General Casualty Company of Wisconsin	2002
William G. Fitzpatrick DeForest, Wisconsin	Vice President, Personal Lines General Casualty Company of Wisconsin	2002
Richard B. Kalina DeForest, Wisconsin	Vice President, Commercial Lines General Casualty Company of Wisconsin	2002
Herman Aaftink The Netherlands	Winterthur Executive Winterthur Swiss Insurance Company	2002

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The following is the only board appointed committee at the time of examination:

Compensation and Benefits Committee

John R. Pollock, Chair
Anne B. Smith
Thomas A. Parker
Don D. Suominen
William G. Fitzpatrick

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are listed below. Listed compensation consists of 2000 gross earnings for services rendered to the Winterthur holding company system as a whole. The company pays only an allocated percentage of the overall compensation reported.

		2000 Compensation	
Name	**Office**	**Salary**	**Other Employee Benefits**
Pollock John R	President & Chief Executive Officer	$341,133	$313,071
McPartland Peter G	Executive Vice President-Operations	204,737	120,175
Gilmore Raymond L	Senior Vice President – Info. Services	185,128	120,178
Parker Thomas A	Senior Vice President, Treasurer & Chief Financial Officer	169,805	105,581
Smith Anne B	Senior Vice President, Corporate Secretary, and General Counsel	170,782	106,458
Suominen Don D	Senior Vice President – Claims	170,255	105,833
Fitzpatrick William G	Vice President – Personal Lines	143,471	87,136
Kalina Richard B	Vice President – Commercial Lines	114,969	29,771

IV. AFFILIATED COMPANIES

General Casualty is a member of a worldwide holding company system controlled by Winterthur Swiss Insurance Company (hereinafter the "Winterthur holding company system").

Winterthur Swiss Insurance Company (hereinafter also "Winterthur Swiss") is the indirect subsidiary of the Credit Suisse Group, a global financial services company that offers a full range of banking and insurance products. Subsidiaries conduct operations in more than 26 countries on five continents. Winterthur Swiss' annual report discloses 84 major subsidiaries worldwide which results are consolidated with that of its own, and 21 investment undertakings in nonconsolidated entities. The group entered the United States in 1936 through the establishment of the United States Branch of Winterthur Swiss. The entire emphasis of the Winterthur holding company system is on insurance and activities incidental to, or in support of, the distribution of insurance.

Winterthur Swiss operates in the United States through five separately managed property and casualty insurance groups. Each of these groups has a geographically defined operating territory. A small amount of business is sometimes written outside the defined territory to provide incidental coverage for an insured or to comply with a state's minimum volume requirement. To facilitate its U.S. operations, Winterthur Swiss established a holding company, Winterthur U.S. Holdings, Inc. (hereinafter also "WUSH"), in 1982 as the direct parent for its U.S. operations. WUSH then acquired or established each of the five insurance groups, which are organized along geographic lines as follows:

Republic Insurance Group (1982)	The South Central States
Southern Guaranty Insurance Group (1988)	The Southeast
General Casualty Group (1990)	The Midwest
Unigard Insurance Group (1992)	The West Coast
Blue Ridge Group (1995)	The Northeast

General Casualty leads a distinct holding company subsystem within the Winterthur holding company system. The function of this holding company subsystem, which consists of six insurers, is to distribute commercial and personal lines insurance products in the Midwestern region of the United States, and to provide insurance on U.S. risks to multinational accounts.

Due to the sheer enormity and worldwide dispersal of the corporate interests of the Winterthur Swiss Insurance Company, this report will confine its narrative of specific entities to parents in the direct succession of control of General Casualty, and affiliates with which General Casualty has significant reinsurance or investment relationships. A chart of the U.S.-based companies within the Winterthur holding company system is presented later in this section of the examination report.

Present Succession of Control

<u>Credit Suisse Group</u>

Credit Suisse Group is a holding company, which is active worldwide in the banking, finance, asset management and insurance industries. Credit Suisse Group is headquartered in Zurich and dates back to 1856. Its registered shares (CSGN) are listed on the SWX Swiss Exchange, and in Frankfurt and Tokyo. They are also traded in New York as an American Depository Receipt (ADR), and in London and Paris. The Group employs around 80,000 staff worldwide and all currency translations are expressed in Swiss francs (Sfr). As of December 31, 2000, the annual review report indicated assets of 987,433 million Sfr ($604,082 million), liabilities of 943,911 million Sfr ($577,457 million), shareholders equity of 43,522 million Sfr ($26,625 million), and net profit of 5,785 million Sfr ($3,539 million), on a consolidated basis.

<u>Winterthur Swiss Insurance Company</u>

Winterthur Swiss Insurance Company was incorporated in Switzerland in 1875. It is a prominent insurer in its own right as well as the ultimate holding company for an extensive and complex network of insurance companies throughout the world. Winterthur Swiss provides catastrophic reinsurance coverage for the General Casualty Group as described in the reinsurance section of this report. The corporation is annually audited by an independent accounting firm in accordance with the provisions of Swiss Accounting and Reporting Recommendations, and all currency translations are expressed in Swiss francs (Sfr). As of December 31, 2000, the audited financial report indicated assets of 13,536 million Sfr ($8,218 million), liabilities of 9,497 million Sfr ($5,810 million), equity of 4,039 million Sfr ($2,471 million), and annual profit after tax of 575 million Sfr ($344 million), on a consolidated basis, including minority interests.

Winterthur U.S. Holdings, Inc.

Winterthur U.S. Holdings, Inc. (hereinafter also "WUSH"), was incorporated in Delaware in 1982. It functions as the holding company for all U.S.-domiciled companies in the Winterthur holding company system, with 7 direct and 38 indirect subsidiaries, including 26 insurance companies. As of December 31, 2000, on a consolidated GAAP basis, WUSH reported assets of $3,927,406,876, liabilities of $3,195,821,897, shareholder's equity of $731,584,979, and net loss of $(68,496,572). Winterthur U.S. Holdings, Inc., is a direct wholly owned subsidiary of Winterthur Swiss Insurance Company.

Subsidiaries

General Casualty Company of Illinois (GCI)

General Casualty Company of Illinois (hereinafter also "GCI") was incorporated under the laws of the state of Illinois on December 14, 1972, and commenced business on January 1, 1973. Although GCI is principally dependent on staff in the employ of General Casualty to run its operations, it owns and maintains a home office in Freeport, Illinois. GCI writes business in 8 of the 28 jurisdictions in which it is licensed. It is the General Casualty Group's lead writer in Illinois, with 80.4% of its direct premiums written in that state. Outside of Illinois, the corporation writes mainly worker's compensation coverage. GCI has a 10% participation in the affiliated pooling agreement, whereby all business written by the General Casualty Group is combined and reapportioned. The 2000 statutory annual statement reports assets of $158,938,190, liabilities of $110,687,133, policyholders' surplus of $48,251,057, and a net income of $501,686. The corporation is a direct wholly owned subsidiary of General Casualty Company of Wisconsin.

Hoosier Insurance Company

Hoosier Insurance Company (hereinafter also "Hoosier") was organized under the laws of the state of Indiana on December 2, 1986, and commenced business on December 31, 1986. General Casualty acquired all of the issued and outstanding common stock of Hoosier from Protective Insurance Company effective October 1, 1995, as part of its overall growth strategy and to provide a stronger presence for the General Casualty Group in the state of Indiana. After acquisition, Hoosier's employees became employees of General Casualty. Hoosier writes direct business exclusively in Indiana, the only state in which it is licensed. Hoosier has a 5% participation in the affiliated pooling agreement, whereby all business written by the General Casualty Group is combined and reapportioned. The 2000 statutory annual statement reports assets of $80,983,677, liabilities of $55,221,518, policyholders' surplus of $25,762,159, and net income of $1,861,551.

Regent Insurance Company

Regent Insurance Company (hereinafter also "Regent") was incorporated under the laws of the state of Wisconsin on January 22, 1963, and commenced business on May 1, 1963. It has been a wholly owned subsidiary of General Casualty from its inception and the membership of its board customarily has been identical to that of its immediate parent. Regent has no employees of its own and is principally dependent on General Casualty to provide staff to run its operations. Regent writes business in 47 of the 50 jurisdictions in which it is licensed. In general, its marketing role within the General Casualty Group is to offer lower premium rates to preferred customers by means of strict underwriting. Regent offers participating dividend plans for its worker's compensation programs, with rate deviations in jurisdictions where this is allowed. Regent has a 15% participation in the affiliated pooling agreement whereby all business written by the General Casualty Group is combined and reapportioned. The 2000 statutory annual statement reports assets of $262,416,971, liabilities of $167,065,794, policyholders' surplus of $95,351,177, and net income of $4,339,658. Regent was examined concurrently with General Casualty as of December 31, 2000, and the results of that examination were expressed in a separate report.

Winterthur International America Insurance Company

Winterthur International America Insurance Company (hereinafter also "WIAIC"), formerly known as Vanguard Insurance Company, was organized under the laws of the state of Texas on November 10, 1945, and commenced business on December 31, 1945. WIAIC was a wholly owned subsidiary of Republic Insurance Company until July 1, 1996, when ownership was transferred to General Casualty Company of Wisconsin. It redomiciled to Wisconsin effective January 1, 1997. WIAIC is used by the American Department of Winterthur Swiss' International Division to provide insurance for U.S. risks to multinational accounts on an admitted basis. WIAIC joined the affiliated pooling agreement among members of the General Casualty Group effective January 1, 1997, with a 5% participation, but extensive use is made of reinsurance to limit the volatility of the direct business WIAIC contributes to the pool. The 2000 statutory annual statement reported assets of $91,153,462, liabilities of $56,695,567, policyholders' surplus of $34,457,895, and net income of $1,077,345.

Winterthur International America Underwriters Insurance Company

Winterthur International America Underwriters Insurance Company (hereinafter also "Winterthur Underwriters"), formerly known as Vanguard Underwriters Insurance Company, was organized under the laws of the state of Oklahoma on October 18, 1965, and commenced business on the same date. Winterthur Underwriters was a wholly owned subsidiary of Republic Insurance Company until July 1, 1996, when ownership was transferred to General Casualty Company of Wisconsin. It is licensed in California, Louisiana, Oklahoma, and Texas. Winterthur Underwriters is used by the American Department of Winterthur Swiss' International Division to provide insurance for U.S. risks to multinational accounts on a nonadmitted basis, except in the four states in which it is licensed where it acts as an admitted carrier. Winterthur Underwriters joined the affiliated pooling agreement among members of the General Casualty Group effective January 1, 1997, with a 5% participation, but extensive use is made of reinsurance to limit the volatility of the direct business Winterthur Underwriters contributes to the pool. The 2000 statutory annual statement reported assets of $78,482,260, liabilities of $55,193,342, policyholders' surplus of $23,288,918, and net income of $667,782.

Written Agreements with Affiliates

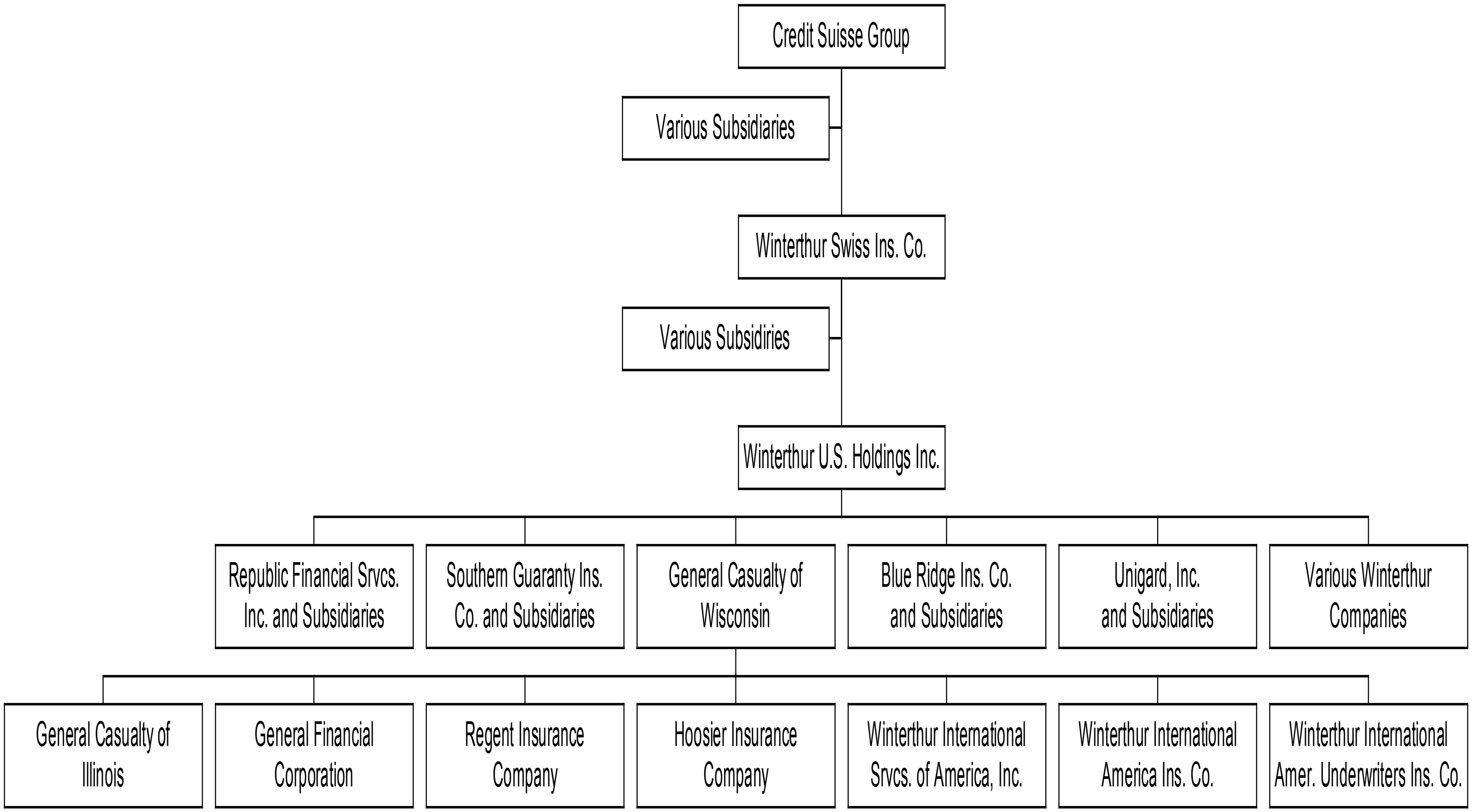
As previously noted, while General Casualty is the primary employer for its holding company subsystem, consequential services are provided by employees of certain other affiliates, including, but not limited to Winterthur Investment Management Corporation. All operations of the General Casualty Group are conducted in accordance with business practices and internal controls established by Winterthur U.S. Holdings, Inc. In addition to common staffing and management control by certain affiliates, General Casualty's relationship to its affiliates is affected by various written agreements. Reinsurance agreements are described in the "Reinsurance" section of this report. A brief summary of the other agreements follows.

Investment Management Agreement

Effective December 30, 1998, General Casualty Company of Wisconsin and its affiliates entered into a service agreement with Winterthur Investment Management Corporation (hereinafter called "WIMCO"). Under this contract, WIMCO agrees to provide investment advisory and administrative services to General Casualty and its subsidiaries in compliance with the respective bylaws and investment guidelines of these companies. General Casualty agrees to pay a quarterly fee in advance based on the historical costs of salaries and other expenses associated with WIMCO's provision of these services. All cost allocations for services rendered under this agreement are to be in accordance with generally accepted accounting principles. General Casualty has the right to audit the books and records of WIMCO which pertain to the computation of charges for services provided under this agreement. This agreement may be terminated at the end of any calendar quarter by either party giving the other 60 days' prior written notice. During 2000, General Casualty and its subsidiaries paid $350,000 to WIMCO under this contract.

Consolidated Federal Income Tax Agreement

The company is party to a consolidated federal income tax agreement with certain affiliates, whereby it files its federal income tax on a consolidated basis with Winterthur U.S. Holdings, Inc. Under this contract, each party's respective obligation or benefit is calculated on a separate return basis. Payments are due no later than 30 days after Winterthur U.S. Holdings, Inc., files the applicable tax returns with the Internal Revenue Service. Any refunds owed to a participant are to be distributed within 30 days after their receipt from the Internal Revenue Service. Any payment due under this agreement which is not settled within the required 30 days shall accrue interest on the unpaid amounts at a rate equal to the percentage charged by the Internal Revenue Service. Parties to the contract agree to make applicable books and records available for inspection by the others at any time during normal business hours. This agreement was last amended effective January 1, 1997.



<u>Notations</u>:

1. All Subsidiaries are wholly owned.
2. As of July 1, 2001, XL Capital Ltd. and X.L. America, Inc. acquired control of Winterthur International America Insurance Company, a Wisconsin-domiciled stock insurer, as part of a larger acquisition involving the purchase of all businesses or activities carried on by or on behalf of Winterthur Swiss Insurance Company or any other subsidiary of Credit Suisse Group under the “Winterthur International” name. U.S. - based companies involved in the acquisition include: Winterthur International America Insurance Company; Winterthur International America Underwriters Insurance Company; and Winterthur International Services of America, Inc. For additional comment on this issue see the section of this report titled “Subsequent Events.”

V. REINSURANCE

The companies' reinsurance treaties in force at the time of the examination are summarized below. The contracts contained the proper insolvency provisions. Involuntary arrangements, such as state auto insurance facilities, mine subsidence funds, and other nonvoluntary excess funds have provisions deemed appropriate by the governmental authorities that establish and administer them. Unless otherwise noted, the summaries reflect terms in force during calendar year 2001.

Affiliated Property and Casualty Pooling Agreement

The companies in the General Casualty Group (General Casualty and its subsidiaries; Regent, GCI, Hoosier, Winterthur, and Winterthur Underwriters) pool all of their net written business under an Intercompany Pooling Agreement. Regent Insurance Company and General Casualty Company of Illinois cede 100% of their direct premiums, losses, loss adjustment expenses, and underwriting expenses to General Casualty Company of Wisconsin. Winterthur International America Insurance Company and Winterthur International America Underwriters Insurance Company cede a portion of their insurance business to affiliated and non-affiliated reinsurers. These cessions are made prior to cession of pooled business to General Casualty. Hoosier Insurance Company also cedes a portion of its liability insurance business to a non-affiliated reinsurer under the terms of a quota share agreement prior to the cession of pooled business to General Casualty.

General Casualty administers all aspects of the pooled business, including the placement of additional reinsurance. The net pooled business is then distributed according to the participations listed below. Income and expenses related to investment operations and corporate taxes, including federal income taxes, are not included in the pooling. The pooling agreement contains a proper insolvency clause.

While each of the insurers in the General Casualty Group are direct co-parties to the ceded reinsurance agreements of General Casualty, a majority of cessions to reinsurers are made on a pooled basis through General Casualty, and all their net retained business is derived from the pool. In addition, pool membership and participation has significantly changed as of July

1, 2001, for additional comment on this change, see the section of this report titled "Subsequent Events". Additional terms of the pool as of December 31, 2000, are outlined below:

Effective: January 1, 1976, continuous, as restated January 1, 1997

Participation:

	12/31/00
General Casualty Company of Wisconsin	60%
Regent Insurance Company	15%
General Casualty Company of Illinois	10%
Hoosier Insurance Company	5%
Winterthur International America Insurance Company	5%
Winterthur International America Underwriters Insurance Company	5%

Lines Covered: All

Items Included: Losses, loss adjustment expenses, underwriting expenses, salvage and subrogation recoveries, and policyholder dividends

Termination: At the end of any treaty year, with 90 days' written notice by any party.

Affiliated Ceding Contracts

1. Type: Aggregate Catastrophic Excess of Loss

   Cedants: General Casualty, Hoosier, Regent, Winterthur International America Insurance Company, Winterthur International America Underwriters Ins. Co., General Casualty Company of Illinois

   Reinsurers: Winterthur Swiss Insurance Company (WSIC)

   Effective: January 1, 2001

   Termination: December 31, 2001

   Lines Covered: Business classified as property with stated exclusions

   Coverage: 95% of all loss amounts (including loss adjusting expenses) incurred on the protected portfolio, which exceeds $22,500,000 in the aggregate during the period of coverage in respect of events declared as catastrophes by Property Claims Service (PCS) in Rahway, New Jersey, subject however to a maximum recovery of 95% of $12,500,000 for the entire period.

   Premium: $1,950,000 (Flat Premium). Should the revised estimated Gross Net Written Premium Income deviate by more than 10% of the estimated figure ($165,500,000), the flat premium will be adjusted accordingly.

2. Type: Catastrophic Excess of Loss

   Cedants: General Casualty, Hoosier, Regent, Winterthur International America Insurance Company, Winterthur International America Underwriters Ins. Co., General Casualty Company of Illinois

Reinsurers: Winterthur Swiss Insurance Company (WSIC)

Effective: January 1, 2001

Termination: December 31, 2001

Lines Covered: Business classified as property with stated exclusions

Retention: $5,000,000 each and every loss occurrence

Coverage: Coverage totaling 95% of $5,000,000 in excess of the company's retention, subject to an annual limit of 95% of $10,000,000.

Premium: $1,200,000 (Flat Premium). Should the revised estimated Gross Net Written Premium Income deviate by more than 15% of the estimated figure ($173,500,000), the flat premium will be adjusted accordingly.

3. Type: Catastrophic Excess of Loss

Cedants: General Casualty, Hoosier, Regent, Winterthur International America Insurance Company, Winterthur International America Underwriters Ins. Co., General Casualty Company of Illinois

Reinsurers: Winterthur Swiss Insurance Company (WSIC)

Effective: January 1, 2001

Termination: December 31, 2001

Lines Covered: Business classified as property with stated exclusions

Retention: $10,000,000 each and every loss occurrence

Coverage: Coverage totaling 95% of $120,000,000 in excess of the company's retention, subject to an annual limit of 95% of $240,000,000.

Premium: $3,750,000 (Flat Premium). Should the revised estimated Gross Net Written Premium Income deviate by more than 15% of the estimated figure ($173,500,000), the flat premium will be adjusted accordingly.

Combined Affiliated and Nonaffiliated Ceding Contracts

1. Type: Property Per Risk Excess of Loss

Cedants: General Casualty Company of Wisconsin, Hoosier Insurance Company, Regent Insurance Company, Winterthur International America Insurance Company, Winterthur International America Underwriters Ins. Co., General Casualty Company of Illinois

Reinsurers: Winterthur Swiss Insurance Company (WSIC)
Partners Reinsurance Company (PRC)
Swiss Reinsurance America Corporation (SRAC)

Effective: January 1, 2001

Termination: December 31, 2001

Lines Covered: Business classified as property with stated exclusions

Retention: $1,500,000 each risk, each occurrence

Coverage: There are two layers of coverage totaling $8,500,000 in excess of the company's retention. The participation percentage of the reinsurer varies with each layer.

Premium: Premiums are a percentage of net earned premium and vary by layer of coverage and include a minimum deposit premium with 25% payable on January 1st, 25% on April 1st, 25% on July 1st, and 25% on October 1st

Layer	Reinsurers' Share		Minimum Premium	Maximum Recovery For All Losses From One Event
$1.5m xs $1.5m	WSIC	50%	$1,096,619	$4.5 million
	SRAC	40	877,295	
	PRC	10	219,324	
7.0m xs $3.0m	WSIC	50	471,171	14.0 million
	SRAC	35	329,820	
	PRC	15	141,351	

2. Type: Liability Excess of Loss

Cedants: General Casualty, Hoosier, Regent, Winterthur International America Insurance Company, Winterthur International America Underwriters Ins. Co., General Casualty Company of Illinois

Reinsurers: Winterthur Swiss Insurance Company (WSIC)
Partners Reinsurance Company (PRC)
Swiss Reinsurance America Corporation (SRAC)

Effective: January 1, 2001

Termination: December 31, 2001

Lines Covered: Business classified as liability with stated exclusions

Retention: $2,000,000 each and every loss occurrence, subject to an annual deductible of $1,000,000 in respects to the first layer

Coverage: There are four layers of coverage totaling $33,000,000 in excess of the company's retention. The participation percentage of the reinsurers varies with each layer.

Premium: Premiums are a percentage of net earned premium and vary by layer of coverage and includes a minimum deposit premium with 25% payable on January 1st, 25% on April 1st, 25% on July 1st, and 25% on October 1st.

Layer	Reinsurers' Share		Minimum Premium	Maximum Liability Policy Limit	Profit Commission
100% to a max. of $4 million	WSIC	50%	$637,500	$10 million	25% of Reins. profit, if any.
	SRAC	40	510,000		
	PRC	10	127,500		
100% to a max. of $5 million	WSIC	50	279,450	10 million	None
	SRAC	35	195,615		
	PRC	15	83,835		
100% to a max. of $14 million	WSIC	50	183,392	10 million	None
	SRAC	35	128,374		
	PRC	15	55,017		
100% to a max. of $10 million	SRAC	100	80,000	10 million	None

Affiliated Facultative Reinsurance

Effective January 1, 1997, the company entered into five reinsurance agreements related to the business produced by WIAIC and WIAUIC, consisting of a stop-loss agreement and four facultative agreements. The purpose of these contracts was to limit the volatility of the direct business these two companies contributed to the General Casualty Group's reinsurance pool. These contracts were terminated effective July 1, 2001, as a result of the sale of the "Winterthur International" named companies to XL Capital Ltd. and X.L. America, Inc. See the "Subsequent Event" section of this report for additional comment.

Nonaffiliated Facultative Contracts

The company also cedes specific risks on a facultative basis to the following companies:

General Reinsurance Corporation
Swiss Reinsurance America Corporation
Hartford Steam Boiler Inspection & Insurance Company

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

General Casualty Company of Wisconsin
Assets
As of December 31, 2000

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	$316,331,231	$	$	$316,331,231
Stocks:				
Common stocks	310,654,901	169,294,273		479,949,174
Real estate:				
Occupied by the company	29,859,844			29,859,844
Cash	11,996,911			11,996,911
Other invested assets	13,144,591			13,144,591
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	36,441,267		6,433,670	30,007,597
Premiums, agents' balances, and installments booked but deferred and not yet due	109,915,961			109,915,961
Reinsurance recoverables on loss and adjustment payments	9,399,041			9,399,041
Federal income tax recoverable and interest thereon		1,069,873		1,069,873
Guaranty funds receivable or on deposit	46,659			46,659
Electronic data processing equipment	708,596			708,596
Interest, dividends, and real estate income due and accrued		5,530,750		5,530,750
Receivable from parent, subsidiaries, and affiliates	42,276,907			42,276,907
Other assets nonadmitted:				
Equipment, furniture, and supplies	5,868,744		5,868,744	0
Write-ins for other than invested assets				
Other Accounts Receivable	7,168,378			7,168,378
Prepaid Expenses	282,079		282,079	0
Expense Advances	62,810		62,810	0
Leasehold Improvements	395,628		395,628	0
Non-Admitted Receivables	36,820		36,820	0
Internal Use Software	4,104,803		4,104,803	
Total Assets	$898,695,171	$175,894,896	$17,184,554	$1,057,405,513

General Casualty Company of Wisconsin
Liabilities, Surplus, and Other Funds
As of December 31, 2000

Losses	$336,751,645
Loss adjustment expenses	72,784,003
Contingent commissions and other similar charges	4,371,338
Other expenses (excluding taxes, licenses, and fees)	13,094,352
Taxes, licenses, and fees (excluding federal and foreign income taxes)	3,864,996
Borrowed money	9,732,259
Unearned premiums	182,825,905
Amounts withheld or retained by company for the account of others	5,952,553
Remittances and items not allocated	9,896,118
Provision for reinsurance	41,000
Excess of statutory over statement reserves	6,159,000
Drafts outstanding	4,900,929
Write-ins for liabilities:	
Assumed Reinsurance Balances Payable	93,485
Escheat Reserve	78
Total Liabilities	650,467,661
Common capital stock	3,000,000
Gross paid in and contributed surplus	82,942,426
Unassigned funds (surplus)	340,897,564
Less treasury stock, at cost:	
Common shares	19,902,138
Surplus as Regards Policyholders	406,937,652
Total Liabilities, Surplus, and Other Funds	$1,057,405,513

General Casualty Company of Wisconsin
Summary of Operations
For the Year 2000

Underwriting Income	
Premiums earned	$432,098,182
Deductions	
Losses incurred	272,337,914
Loss expenses incurred	52,730,613
Other underwriting expenses incurred	119,321,487
Total underwriting deductions	444,390,014
Net underwriting loss	(12,291,832)
Investment Income	
Net investment income earned	30,031,665
Net realized capital gains or losses	17,716,850
Net investment gain or loss	47,748,515
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(777,603)
Finance and service charges not included in premiums	1,414,706
Write-ins for miscellaneous income:	
Gain on Sale of Equipment	21,333
Loss on Sale of Equipment	(39,132)
Other Miscellaneous Expense	(181,615)
Total other income	437,689
Net income before dividends to policyholders and before federal and foreign income taxes	35,894,372
Dividends to policyholders	10,367,067
Net income after dividends to policyholders but before federal and foreign income taxes	25,527,305
Federal and foreign income taxes incurred	12,386,345
Net Income	$13,140,960

General Casualty Company of Wisconsin
Cash Flow
As of December 31, 2000

Premiums collected net of reinsurance	$433,235,077		
Loss and loss adjustment expenses paid (net of salvage or subrogation)	292,580,317		
Underwriting expenses paid	120,251,106		
Cash from underwriting		$20,403,655	
Investment income (net of investment expense)		30,781,188	
Other income (expenses):			
Agents' balances charged off	(777,603)		
Net amount withheld or retained for account of others	1,698,838		
Write-ins for miscellaneous items:			
Service Charge Revenue	1,414,706		
Loss on Sale of Equipment	21,333		
Gain on Sale of Equipment	(39,132)		
Other Miscellaneous Expense	(181,614)		
Total other income		2,136,528	
Deduct:			
Dividends to policyholders paid		10,367,067	
Federal income taxes paid (recovered)		18,590,119	
Net cash from operations			$24,364,184
Proceeds from investments sold, matured, or repaid:			
Bonds	588,016,833		
Stocks	251,240,210		
Other invested assets	893,680		
Net gains or (losses) on cash and short-term investments	11,860		
Miscellaneous proceeds	318,629		
Total investment proceeds		840,481,212	
Cost of investments acquired (long-term only):			
Bonds	574,212,033		
Stocks	254,105,028		
Real estate	13,367,003		
Other invested assets	2,058,719		
Miscellaneous applications	1,740,975		
Total investments acquired		845,483,758	
Net cash from investments			(5,002,546)
Cash provided from financing and miscellaneous sources:			
Borrowed funds received	9,732,259		
Other cash provided	6,276,201		
Total	16,008,460		

Cash applied for financing and miscellaneous uses:			
Dividends to stockholders paid	5,000,000		
Net transfers to affiliates	33,110,732		
Other applications	10,126,819		
Total		48,237,551	
Net cash from financing and miscellaneous sources			(32,229,091)
Net change in cash and short-term investments			(12,867,453)

Reconciliation

Cash and short-term investments, December 31, 1999	24,864,364
Cash and short-term investments, December 31, 2000	$11,996,911

General Casualty Company of Wisconsin
Compulsory and Security Surplus Calculation
December 31, 2000

Assets		$1,047,149,508 *	
Less investment in insurance subsidiaries not in excess of subsidiaries' security surplus		82,074,847	
Less liabilities		650,467,661	
Adjusted surplus			$314,607,000
Annual premium:			
Individual accident and health	$ 0		
Factor	15%		
Total			
Group accident and health	0		
Factor	10%		
Total			
All other insurance	444,047,878		
Factor	20%		
Total		88,809,576	
Compulsory surplus (subject to a minimum of $2 million)			88,809,576
Compulsory surplus excess (or deficit)			$225,797,425
Adjusted surplus			$314,607,000
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%)			112,788,161
Security surplus excess (or deficit)			$201,818,839

* - The above amount reflects a reduction of $10,256,005 for the unamortized goodwill attributable to the acquisition of Hoosier Insurance Company, in compliance with a recommendation made in the previous examination report.

General Casualty of Wisconsin
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1996	1997	1998	1999	2000
Surplus, beginning of year	$301,726,191	$308,885,785	$352,211,573	$410,370,457	$415,946,073
Net income	12,056,784	31,647,563	36,137,233	35,193,872	13,140,960
Net unrealized capital gains or (losses)	22,024,535	4,680,574	24,557,275	(9,248,404)	(9,500,713)
Change in nonadmitted assets	(1,171,013)	(919,196)	(853,768)	(1,899,458)	(4,800,246)
Change in provision for reinsurance			(37,744)	(345,356)	342,000
Change in excess of statutory reserves over statement reserves	(6,307,850)	12,406,141	(2,998,891)	3,909,400	(2,236,000)
Dividends to stockholders	(21,056,671)				(5,000,000)
Change in treasury stock				(19,902,138)	
Write-ins for gains and (losses) in surplus:					
ISO Stock Issuance		1,333,200			
Prior year State Tax and Interest	93,662	(5,838,132)	1,160,476	(1,334,226)	
Prior year Federal Tax and Interest	1,520,147	15,638	194,303	(1,319,842)	(954,222)
WC Insurance Pool Refund				521,668	
Surplus, end of year	$308,885,785	$352,211,573	$410,370,457	$415,946,073	$406,937,852

General Casualty of Wisconsin
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2000

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1996	1997	1998	1999	2000
#1	Gross Premium to Surplus	179.0%	165.0%	153.0%	161.0%	189.0%
#1A	Net Premium to Surplus	110.0	84.0	85.0	95.0	112.0
#2	Change in Net Writings	12.0	(13.0)	17.0	14.0	15.0
#3	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#4	Two-Year Overall Operating Ratio	93.0	95.0	93.0	91.0	94.0
#5	Investment Yield	4.3*	4.2*	3.5*	3.4*	3.6*
#6	Change in Surplus	3.0	12.0	17.0	2.0	(1.0)
#7	Liabilities to Liquid Assets	87.0	87.0	83.0	82.0	90.0
#8	Agents' Balances to Surplus	9.0	8.0	9.0	8.0	9.0
#9	One-Year Reserve Devel. to Surplus	(9.0)	(3.0)	(9.0)	(2.0)	2.0
#10	Two-Year Reserve Devel. to Surplus	(9.0)	(9.0)	(10.0)	(12.0)	(4.0)
#11	Estimated Current Reserve Def. To Surplus	(6.0)	(12.0)	(14.0)	3.0	10.0

Ratio No. 5 measures the average return on the company's investments. The exceptional investment yield may be attributed to the company's large investment in insurance subsidiaries. For additional comment see the section of this report titled "Affiliated Companies".

Growth of General Casualty Company of Wisconsin

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1996	$802,209,936	$493,324,151	$308,885,785	$12,056,784
1997	834,159,499	481,947,926	352,211,573	31,647,563
1998	958,398,911	548,028,454	410,370,457	36,137,233
1999	991,954,471	576,008,398	415,946,073	35,193,872
2000	1,057,405,513	650,467,661	406,937,852	13,140,960

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1996	$553,912,316	$338,247,102	$325,588,331	70.4%	28.3%	98.7%
1997	580,730,927	295,951,104	306,273,959	71.3	29.1	100.4
1998	629,448,010	347,628,580	324,728,119	68.7	28.3	97.0
1999	668,755,386	394,838,225	378,924,546	69.1	26.8	95.9
2000	769,324,344	454,414,945	432,098,182	75.2	26.3	101.5

The company experienced an underwriting profit in four of the last five years and nine of the last ten years. These traditionally positive underwriting results have contributed to the company's ability to report net income in each of the past ten years and increase surplus during the period. As a result, the company's surplus increases have kept pace with the increases in premium volume.

Reconciliation of Surplus per Examination

The company reported $406,937,852 in surplus as regards policyholders as of December 31, 2000. The examination resulted in no adjustments or reclassifications.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Biographical Data—It is recommended that the company report biographical data relating to company officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

   Action—Compliance.

2. Special Deposits—It is recommended that, in future filings of the statutory annual statement, the Schedule of Special Deposits correctly distinguish between deposits held for the benefit of all the policyholders and deposits held for more restricted categories of policyholders in accordance with the NAIC's Annual Statement Instructions - Property and Casualty.

   Action—Compliance.

3. Preferred Stock—It is recommended that the company annually file the documentation necessary to obtain a valuation for this security with the NAIC's Securities Valuation Office, pursuant to s. Ins 6.20 (10) (a), Wis. Adm. Code.

   Action—Compliance.

4. Common Stock—It is recommended that the company include unamortized goodwill in the valuation of the security to which it is related in accordance with the NAIC's Annual Statement Instructions - Property and Casualty.

   Action—Compliance.

5. Common Stock—It is recommended that the company deduct the aggregate admitted value of goodwill and other intangible assets from assets for purposes of computing compulsory and security surplus pursuant to s. 611.26 (1), Wis. Stat.

   Action—Compliance.

Summary of Current Examination Results

Management and Control

The company's current Bylaws note that directors are to be divided into three classes and expiration would alternate between the classes. The examination noted that all directors were currently elected on an annual basis. The company indicated that it was attempting to amend its Bylaws to reflect its current election process, but was still researching the compliance issues related to the multiple states in which it conducts business. It is recommended that the company comply with its Bylaws or amend them to reflect current practices and file any such amendment with the commissioner, pursuant to s. 611.12(4), Wis. Stat.

Unclaimed Funds

The examination, on a sample basis, reviewed the company's unclaimed property filings and procedures. General Casualty utilizes a software package to assist the company in identifying possibly escheatable items per each states specific rules and regulations. The software package identifies escheatable property by the date the check/draft was issued and other key fields in accordance with the applicable State's rules. The examination noted that if a key field is missing the check/draft is not identified as possibly escheatable. A query was run to identify all items within the outstanding draft/check listings that were missing a key field and noted several items that appeared as possibly escheatable. The company intends to review these identified items and file any escheatable property in subsequent state filings. It is recommended that the company improve procedures to ensure compliance with ch. 177, Wis. Stat., as regards to unclaimed property.

Securities Lending Program

The company has been participating in a securities lending program since 1991. The company entered into an agreement with a bank to administer its securities lending program and to act as custodian for the collateral received. This agreement contained satisfactory safeguards and controls as specified by the NAIC Examiners Handbook. In addition, the agreement addresses compliance with the Purpose and Procedures Manual of the NAIC Securities Valuation Office. However, the General Casualty Companies does not perform any monitoring of the administrator to ensure compliance with its agreement. It is recommended that the company implement procedures to periodically, not less than annually, monitor its securities lending program.

Receivable from Parent, Subsidiaries and Affiliates $42,276,907

As described earlier in the report, virtually all expenses for the holding company subsystem led by General Casualty are initially paid by General Casualty. Expenses other than federal taxes and investment management are allocated in accordance with the affiliated pooling reinsurance agreement according to each insurer's participation in premiums and losses. The majority of this asset includes receivables due General Casualty in accordance with those agreements.

The examination noted that General Casualty was making claim payments throughout the year on behalf of several overseas affiliates and charged the amount paid for the claim and related loss adjustment expenses to the respective affiliate. General Casualty does not receive a commission or fee for the services provided to the affiliates, as other Winterthur affiliates perform similar services for General Casualty. The examination was able to trace the majority of balances due to General Casualty to subsequent receipts and therefore deemed no adjustment was necessary. However, the company had no formal written agreement documenting the duties and responsibilities related to these payments. Signed written agreements help develop and maintain a division of accountability and responsibility. It is recommended that the company develop and execute agreements, which will clearly and accurately disclose the nature and details of all the various transactions amongst affiliates, both foreign or domestic, for all services provided and for settlement of any outstanding balances, pursuant to s. 611.61, Wis. Stat.

In addition, these agreements would be reportable to the Commissioner prior to becoming effective, in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code, and would be subject to disapproval. It is recommended that the company submit any future proposed affiliated agreements, at least 30 days in advance, in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

Advance Premium

As of December 31, 2000, the company was incorrectly netting the balance of this liability with Premiums and Agents' Balances in the Course of Collection. According to the NAIC Annual Statement Instructions—Property and Casualty, "Advance premiums result when policies have been processed, and the premium has been paid prior to the effective date. These advance premiums are considered to be fully unearned. This unearned premium reserve is reported in the liabilities, surplus and other funds exhibit of the annual statement. As an alternative, companies may accumulate advance premiums in a suspense account as a separate liability, "advance premiums", on page 3 of the annual statement under aggregate write-ins for liabilities. Using this treatment, companies would not include advance premium in either written premium or the unearned premium reserve".

Codification, which became effective January 1, 2001, changed the reporting and no longer provides the option to include in the unearned premium reserves. According to Statements of Statutory Accounting Principles (SSAP), No. 53, paragraph 13, "…advance premiums are reported as a liability in the statutory financial statement and not considered income until due."

No adjustment to surplus is proposed due to lack of materiality. However, it is recommended that in future annual statements, the company properly report advance premium in accordance with the NAIC Accounting Practices and Procedures Manual.

Information Technology

In reviewing access to the computer facilities, it was noted that senior executives were given access to those facilities. The company was unable to provide a clear business reason for granting access rights to these individuals. Limiting physical access to computer facilities is an essential element of a proper control environment. It is recommended that the company limit physical access to the computer facilities to those individuals who have a clear business need to have access to those resources.

The company's systems produce logs to identify both logical and physical computer access by company employees and access through the company's firewall. While it was noted that the company does periodically review these security logs, the review is not formally documented by the company. It is recommended that the company develop a formal process for the review of its security logs that includes documenting and retention.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance to review the adequacy of the company's loss and loss adjustment expense reserves. The independent actuarial firm determined that the company's reserves were adequate and no adjustments were necessary.

In addition, the independent actuarial firm reviewed the report of the opining actuary for qualitative issues, addressing areas of the methodology and assumptions, which are to some extent based on actuarial judgement. The following recommendations were made related to the actuarial report supporting the opinion of the company's appointed actuary:

- It is recommended that the company's appointed actuary include in their actuarial report a comparison of their selected gross loss and loss adjustment expense reserves with the company's carried gross reserves.

- It is recommended that the company's appointed actuary include in their actuarial report the reconciliation of the actuarial data to the company's Schedule P to facilitate regulatory review.

VIII. CONCLUSION

Policyholders' surplus has increased 34.9%, from $301,726,191 on December 31, 1995, to $406,937,852 as of December 31, 2000. During the same period, premium writings increased by 7.9% and 50.0% on a direct and net basis, respectively. The company experienced an underwriting profit in four of the last five years, and reported net income in each of the last five years. As a result, there has been a steady accumulation of its financial strength that has enabled the company to increase writings on a net basis, while comfortably maintaining surplus in excess of regulatory requirements.

As described in numerous sections of this report, General Casualty leads a distinct holding company subsystem and an affiliated reinsuance pool within the Winterthur holding company system. Changes made to the membership of this pool are described in the section of this report titled "Subsequent Events".

The examination resulted in ten recommendations, none of which were repeated, from the previous examination. The recommendations related to management's control, transactions with Non U.S. affiliates, financial reporting issues and the company's appointed opining actuary's actuarial report. No adjustments to surplus were made as a result of this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 32 - Management and Control—It is recommended that the company comply with its Bylaws or amend them to reflect current practices and file any such amendment with the commissioner, pursuant to s. 611.12(4), Wis. Stat.

2. Page 32 - Unclaimed Funds—It is recommended that the company improve procedures to ensure compliance with ch. 177, Wis. Stat., as regards to unclaimed property.

3. Page 33 - Securities Lending Program—It is recommended that the company implement procedures to periodically, not less than annually, monitor its security lending program.

4. Page 33 - Receivable from Parent, Subsidiaries, and Affiliates—It is recommended that the company develop and execute agreements, which will clearly and accurately disclose the nature and details of all the various transactions amongst affiliates, both foreign or domestic, for all services provided and for settlement of any outstanding balances, pursuant to s. 611.61, Wis. Stat.

5. Page 33 - Receivable from Parent, Subsidiaries, and Affiliates—It is recommended that the company submit any future proposed affiliated agreements, at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

6. Page 34 - Advance Premium—It is recommended that in future annual statements, the company properly report advance premium in accordance with the NAIC Accounting Practices and Procedures Manual.

7. Page 34 - Information Technology—It is recommended that the company limit physical access to the computer facilities to those individuals who have a clear business need to have access to those resources.

8. Page 35 - Information Technology—It is recommended that the company develop a formal process for the review of its security logs that includes documenting and retention.

9. Page 35 - Independent Actuary's Review—It is recommended that the company's appointed actuary include in their actuarial report a comparison of their selected gross loss and loss adjustment expense reserves with the company's carried gross reserves.

10. Page 35 - Independent Actuary's Review—It is recommended that the company's appointed actuary include in their actuarial report the reconciliation of the actuarial data to the company's Schedule P to facilitate regulatory review.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Randy Milquet	Data Processing Audit Specialist
DuWayne Kottiwitz	Insurance Financial Examiner
Jean Suchomel	Insurance Financial Examiner
Mark Knievel	Insurance Financial Examiner
Richard Manamba	Insurance Financial Examiner

Respectfully submitted,

Tim Vande Hey
Examiner-in-Charge
Senior Insurance Financial Examiner

XI. APPENDIX—SUBSEQUENT EVENTS

April 2, 2001, ownership and operational control of Blue Ridge Insurance Company, Blue Ridge Indemnity and MassWest Insurance Company were transferred to General Casualty Company of Wisconsin. Transfer of ownership took place as a capital contribution, valued at $41,493,943, by Winterthur U.S. Holdings, Inc. The companies became part of the General Casualty inter-company pooling agreement July 1, 2001. Also on July 1, 2001 by way of dividend, the ownership of Blue Ridge Indemnity and MassWest Insurance Company transferred from Blue Ridge Insurance Company to General Casualty Company of Wisconsin.

Effective July 2, 2001, this office approved the acquisition of Winterthur International America Insurance Company, by XL Capital Ltd. and X.L. America, Inc. The transaction was part of a larger acquisition involving the purchase of all businesses or activities carried on by or on behalf of the Winterthur Swiss Insurance Company or any other subsidiary of Credit Suisse Group under the "Winterthur International" name. Both Winterthur International America Insurance Company and Winterthur International America Underwriters Insurance Company were depooled from the General Casualty inter-company pooling agreement effective July 1, 2001. The following table depicts the changes to the pool.

January 1 through June 30, 2001:

Participating Companies	Participation
General Casualty Company of Wisconsin	60%
Regent Insurance Company	15%
General Casualty Company of Illinois	10%
Hoosier Insurance Company	5%
Winterthur International America Insurance Company	5%
Winterthur International America Underwriters Insurance Company	5%

July 1, 2001 and continuing:

Participating Companies	Participation
General Casualty Company of Wisconsin	65.0%
Regent Insurance Company	10.0%
General Casualty Company of Illinois	7.5%
Hoosier Insurance Company	5.0%
Blue Ridge Insurance Company	7.5%
Blue Ridge Indemnity Company	2.5%
MassWest Insurance Company	2.5%